

Before the

Commission

recommends that the Commission's most recently authorized or prescribed rate of return be the AFUDC accrual rate. As discussed herein, the NTCs' conclusion that a rulemaking is warranted is based on a historical rationale which differs from that of Ameritech, and the NTCs propose a different solution.

There are inconsistencies with regard to IDC between the Commission's Part 65 ratemaking rules and the Part 32 accounting rules, which should be addressed in a rulemaking. Accordingly, the NTCs propose that a rulemaking be initiated which would amend Part 65 and Part 32 to make consistent the rules regarding IDC, and further recommend that IDC be accrued in accordance with Generally Accepted Accounting Principles ("GAAP"). For ratemaking purposes, the NTCs propose that Account 2004, Telecommunications Plant Under Construction - Long Term ("Long-Term TPUC"), be included in rate base and that IDC income be included in the determination of earnings.

### III. DISCUSSION

#### A. Two Separate Proceedings Have Led To Inconsistent Requirements Between Ratemaking and Accounting

In 1978, as part of its Docket 19129 Phase II Decision,<sup>2</sup> the Commission determined that the prime rate should be used to accrue IDC for ratemaking purposes. The Commission stated (Order, para. 154) that changes to the Uniform System of Accounts would be required as a result of its

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<sup>2</sup> AT&T Charges for Interstate Service, 64 F.C.C.2d 1 (1977) ("Order").

ratemaking decisions, and that the needed changes would be addressed in a separate rulemaking proceeding.

On April 28, 1977, the Commission adopted a Notice of Proposed Rulemaking<sup>3</sup> to address the amendments to Part 31<sup>4</sup> which would be required as a result of the Docket 19129 Phase II Decision. In the Notice the Commission proposed to amend Part 31 to require carriers to accrue IDC based on the prime rate in accordance with the Phase II Decision. But in the Docket 21230 Report and Order<sup>5</sup> the Commission decided (para. 13):

"[R]evising the accounting rules to require the use of the prime rate as the rate for capitalizing interest during construction for all carriers subject to Part 31 may not be appropriate at this time. Accordingly, we are not amending Section 31.2-22 of Part 31 in this regard."

The Commission also decided that carriers must disclose the IDC rate used and the basis for determining that rate in Note 3 to Schedule 11 of Form M.

The Commission's accounting decision was further upheld in CC Docket No. 84-469,<sup>6</sup> where the Commission decided

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<sup>3</sup> CC Docket No. 21230, Amendment of Part 31. Uniform System of Accounts for Class A and Class B Telephone Companies, 42 Fed. Reg. 24291.

<sup>4</sup> Part 31 was the Uniform System of Accounts replaced by Part 32 effective January 1, 1988.

<sup>5</sup> 68 F.C.C.2d 902 (1978).

<sup>6</sup> Revision of the Uniform System of Accounts for Telephone Companies to Accommodate Generally Accepted Accounting Principles, 102 F.C.C.2d 964 ("GAAP Order").

that the IDC accrual should continue to reflect both debt and equity components. Both GAAP and the Commission's rules require IDC computation on the same base amount; the difference between GAAP and the Commission's rules noted in the GAAP Order<sup>7</sup> would be in regard to the determination of the rate.

Given that there are two sets of requirements for IDC accrual, one for accounting and one for ratemaking, a rulemaking proceeding would be appropriate at this time to resolve those differences. This resolution is important because to the extent that there are material differences between IDC recorded for accounting (book) purposes and the

~~part used for ratemaking purposes. Statement of Principles~~

SFAS 34 requires that interest costs be capitalized for assets that are constructed or otherwise produced for an enterprise's own use which require a period of time to get them ready for their intended use. The amount of interest to be capitalized is intended to be that portion of the interest cost incurred during the construction period that theoretically could have been avoided. This is based on the underlying assumption that if construction activities were not undertaken, the firm could have used the funds to pay off debt. In practice, unless debt is specifically acquired for construction purposes, GAAP requires the application of a firm's overall cost of debt to the average amount of accumulated expenditures, with the resulting interest cost capitalized not to exceed the amount of interest expense actually paid by the firm.

Adoption of SFAS 34 is appropriate for both ratemaking and accounting purposes. Furthermore, the resulting interest cost capitalized would be very close to what is currently required for ratemaking purposes; basically, the only difference would be between the prime rate and the embedded cost of debt. Alternatively, since regulated companies all have differing costs of debt, the Commission could require the use of the embedded cost of debt which underlies the Commission's authorized rate of return.

C. The Commission Should Amend Part 65 To Include Long-Term TPUC In Rate Base And IDC Income In Earnings Determination

The NYNEX Telephone Companies concur with Ameritech that the present ratemaking requirements do not adequately

reflect the costs of construction. However, Ameritech's proposals do not sufficiently address the issue at hand. Ameritech's proposal to accrue IDC based on the overall rate of return is inconsistent with GAAP; its alternative proposal to include TPUC in rate base and not accrue IDC is inconsistent with GAAP, focuses only on the rate base and ignores income. A more equitable solution is to include Long-Term TPUC in the rate base with interest capitalized in accordance with GAAP, and on the other hand also include the IDC interest income in the determination of earnings. This treatment is evenhanded in that it takes both the balance sheet and income statement effects of IDC into account, and also provides an appropriate balance between cost recovery and ratepayer interests.

### III. CONCLUSION

For the reasons stated, the NYNEX Telephone Companies request that the Commission initiate a rulemaking proceeding to determine an appropriate and consistent method for determining interest during construction for ratemaking and accounting purposes. The Commission should propose to amend Part 32 and Part 65 to require computation of IDC in accordance with GAAP,

and should amend Part 65 to allow inclusion of Long-Term TPUC  
in rate base and IDC income in earnings determination.

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CERTIFICATE OF SERVICE

I certify that copies of the foregoing Comments Of The  
NYNEX Telephone Companies were served on each of the persons  
listed below for Docket No. RM-7626, on this 21st day of March,  
1991, by first class United States mail, postage prepaid.

  
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